Case analysis: rjm enterprises, inc. – romancing the vine essay

Case Analysis: RJM Enterprises, Inc. – Romancing the Vine Brief Background The case is introduced in late 1998 with Ron McManisat a crossroads of sorts regarding his family owned business. Currently, McManisenjoys moderate success as a mid-sized, Central Valley grower of grapes who sells his product to valley based wineries. His particular plot of land affords the added benefit of being able to produce high quality grapes in an area that is largely thought to produce grapes found in cheaper wines.

In an effort to rid himself of this stigma and strategically position his company for growth, McManishired consultants to present options for expanding his current operations. The case closes with a presentation of various options with accompanying pro-forma financial statements to help McManis make a decision. Question 1: What is *McManis* attempting to achieve? The wine industry for Central Valley farmers is extremely cyclical. Past generations of farmers and current competitors have had a major problem with depressed grape prices during times of surplus.

During these times, wineries dictate pricing to a large degree and an individual farmer has very few options because grapes are considered by many to be a commodity in the region. McManis is grappling with the question of whether to continue conducting business as is during these ‘ down’ times or to invest in additional operational capabilities, which would provide more flexibility to his company.

McManisis looking for additional growth in his customer base & overall improvement in a niche market.

His ideal customer base is located in Northern California in an area that regularly dictates both supply amounts and grape prices to suppliers in Central Valley. One of the available options for farmers is to adopt new technologies to crush grapes on-site and selling this juice product direct to wineries. This sort of move is unprecedented for a Central Valley farmer and without an existing customer base for his juice product, McManiswill likely struggle to obtain the necessary funding from lenders.

The financial situation is further complicated by the fact that he is somewhat unwilling to invest his entire livelihood into unproven technologies (an understandable stance to take).

The five options presented by the consultants are as follows: As is scenario – Continue growing grapes in the field and try to market higher quality to Northern California wineries. Competitive advantage is quality of grapes and high service levels. Purchase mobile (in field) crushmachines to provide juice to wineries.

In this scenario, McManis would be unable to obtain ‘ Vigorish’ product. (Crushed grapes for lower quality wines) Purchase a fully-functional onsite crushing & storage facility.

McManiswould lose field space, but would be able to store & age juice as needed. Also, he would be able to capture vigorish. Purchase an existing facility to crush, ferment and store the grapes. McManiswould be able to reap benefits of option 3, but site would need significant upgrades. Also the issue of transporting grapes to the off-site facility becomes necessary to address.

Become a fully integrated winery, including development of a brand label. This would be the most expensive option, and would require sales & marketing expenses which the company doesn’t currently incur. Question 2: What do you make of the financial analysis prepared by the consultant? Overall, the financial analysis prepared by the consultants provided what most business would want when asking a consultant for help. They proposed several different scenarios, each of which would be an option for the owner to consider.

Some issues that I have with the financial analysis include the missing recommendation that should accompany most financial consultations.

Also, the financial analysis downplays the significance of obtaining a reliable customer base in the North Coast. It shows ROI as a product of value added (per ton), but does not include a variable to cover the customers that may not exist. The analysisassumes that the bank will finance the entirety of each scenario and does not account for high interest rates (they only list interest at 9%) that the bank will likely charge for the additional risk associated with the bigger projects.

Another cost that the consultants conveniently left out of their financial analysis is the cost of having consultants spendtime and energy on a project like this. Depending on the amount of time involved, this cost could be somewhere in the $10, 000 – $25, 000 range. *Question 3: If you were McManis*, what would you do? If I were in McManis’ position, I would purchase the mobile/field press as stated in option 2.

A mobile field press allows for conservative growth in the Northern California market while allowing RJM to gain knowledge of the juicing/storage process.

It will allow the company to continue to focus on the quality of its grapes without a massive capital expenditure. Unfortunately, a downside to this plan is the inability to capture the vigorish which is valued by some customers. McManisis currently in a pretty good situation from a strategy standpoint.

Although overall wine consumption is dropping across the board, label laws are making it possible for Northern California wineries to add up to 25% of total grapes from regions outside of their own. By extension, this allows these wineries to charge a higher price, while having a lower overall cost.

McManis’ product quality alone will make him a cheaper option for those wineries looking to keep their product image intact. Adding the fact that he will be able to transport a product that is pre-crushed provides another valuable option to Northern CA customers who are spending an increasingly large portion of their overall profit on marketing and sales.

McManis would do well to enter into a contract with a local transporter of refrigerated wines, who will ensure timely deliveries and minimal problems associated with communication between RJM & their customers.

From a financial standpoint, the mobile/field press is the most realistic option (apart from staying the course). Even without vigorish, a 4000-ton chardonnay scenario will yield an annual return of $144, 800 (ROI of 18%) and a 12, 000-ton total harvest scenario will yield $647, 733 (ROI of 44%). This will also allow for a maximum level of grape acres and apart from a single technology, the company will not have to learn anything new. The company will be able to continue to focus on what it does well, which is grow high-quality grapes.